

**Draft Minutes of the 66<sup>th</sup> Meeting of the  
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS  
Held on December 3-6, 2019 in New York, United States**

### **Voting Members**

Present: Stavros Thomadakis (Chairman)  
Richard Fleck (Deputy Chair)  
Michael Ashley  
Sanjiv Chaudhary  
Brian Friedrich  
Hironori Fukukawa  
Kim Gibson  
Liesbet Haustermans  
Robert Juenemann (Days 1,2,4 & ½ Day 3)  
Myriam Madden  
Winifred Kiryabwire  
Caroline Lee  
Alden Leung (Days 2,3 & ½ Day 4)  
Ian McPhee  
Andrew Mintzer  
Patricia Mulvaney  
Jens Poll  
Sylvie Soulier

### **Technical Advisors**

Saadiya Adam (Mr. Fleck)  
James Barbour (Mr. Ashley)  
Denise Canavan (Ms. Haustermans)  
David Clark (Ms. Soulier)  
Gregory Driscoll (Ms. Lee)  
Jens Engelhardt (Mr. Poll)  
Ellen Gorla (Mr. Mintzer and Ms. Madden)  
Selene Ho (Mr. Leung)  
Gina Maldonado-Rodek (Ms. Gibson)  
Andrew Pinkney (Ms. Mulvaney)  
Kemisha Soni (Mr. Chaudhary) (Days 1 & 2)  
Sundeeep Takwani (Ms. Kiryabwire)  
Kristen Wydell (Mr. McPhee)  
Masahiro Yamada (Mr. Fukukawa)

### **Non-Voting Observers**

Present: Gaylen Hansen, IESBA CAG Chair, and Masaki Murase, Japanese Financial Services Agency (FSA)

### **Public Interest Oversight Board (PIOB) Observer**

Present: Jane Diplock

### **IESBA Staff**

Present: James Gunn (Managing Director, Professional Standards), Michelle Colon (Chief of Operations, Professional Standards), Ken Siong (Senior Technical Director), Diane Jules (Deputy Director), Geoffrey Kwan, Szilvia Sramko, Carla Vijian

## **1. Opening Remarks**

### WELCOME AND INTRODUCTIONS

Dr. Thomadakis welcomed all participants and public observers to the meeting.

Among other matters, Dr. Thomadakis highlighted the following in his introductory briefing to the Board:

- Rotations, re-appointments and new member appointments:
  - Ms. Mulvaney and Ms. Soulier will be rotating off at the end of the year.
  - Mr. Leung will not be seeking re-appointment to the IESBA after December 2019. The IFAC Nominating Committee is currently searching for a replacement for Mr. Leung.
  - Mss. Gibson and Lee and Mr. Fukukawa have been reappointed. Mr. Fukukawa has been reclassified as a non-practitioner following a change in his employment situation.
  - Mr. Fleck has been reappointed Deputy Chair.
  - There will be two new IESBA members from January 2020, Ms. Laurie Endsley and Mr. Huesken.
- The activities of the Planning Committee (PC) during the quarter, including consideration of the various work streams on the Board's agenda and the forward work plan for 2020-2021 and plans for upcoming outreach in Q1 2020.
- The outreach activities since the last Board meeting, which included a series of meetings with stakeholders in China. In response to questions from some IESBA members regarding how the IESBA's outreach activities are planned, Dr. Thomadakis explained that the overall responsibility for outreach rests with the IESBA Chairman in consultation with the PC and senior IESBA staff. He highlighted some of the factors that are weighed in determining which outreach activities to pursue.

### APPROVAL OF MINUTES

The IESBA approved the minutes of the September 2019 public session as amended.

## **2. Fees**

Mr. McPhee, Chair of the Fees Task Force, commenced the session by reporting on the activities of the Task Force since the September meeting, including discussions about the potential implications of the proposals with respect to anti-trust and anti-competition issues in certain jurisdictions, including the US. The IESBA considered the Task Force's revised proposals and agreed to revisions and drafting refinements to address several comments raised during the meeting, the most substantive of which are summarized below.

### THREATS CREATED BY FEES PAID BY THE AUDIT CLIENT

With respect to the proposed statement that there is an inherent self-interest threat created when fees are paid by the audit client, it was agreed that the proposed language should not suggest that the audit-client payor model is in itself a concern. Instead, it should be recognized that while payment of fees by an audit client to a firm is a practice that is generally recognized and accepted by intended users of financial statements, such practice creates a self-interest threat and might create an intimidation threat to independence.

It was suggested that the proposed application material relating to the evaluation of self-interest threats created by the fees paid by the audit client should be aligned more closely with the extant provisions set out in the conceptual framework. For example, it was noted that the proposal should focus on determining whether a self-interest threat exists and is at an acceptable level. Circumstances that involve fee dependency or overdue fees are conditions that can impact the level of the self-interest threat.

#### FACTORS FOR EVALUATING THREATS CREATED BY FEES

The IESBA deliberated whether to include “the existence of an independent committee of the firm advising on governance matters that might impact the firm’s independence” as an example of a factor that the firm might consider in evaluating the level of threats created by fees paid by the audit client. The Task Force was of the view that the existence of such an independent committee may be relevant to a wider spectrum of issues and not just fee-related matters, and proposed that the new example form part of the examples of conditions, policies and procedures in Section 120.<sup>1</sup> The Task Force was also of the view that the proposed example would be relevant to audit, review and other assurance engagements.

While IESBA members acknowledged that the proposed change would be beneficial, some members believed that the proposal related to the governance of the firm and questioned whether it fell within the scope of the project. After further deliberation, the IESBA decided to include a specific question on the matter in explanatory memorandum (EM) to solicit stakeholder input.

#### LEVEL OF AUDIT FEES

The IESBA supported the revised proposals regarding the level of audit fee, and the approach taken with respect to possible threats that might be created by audit fees that are at low and high levels. The IESBA agreed that the focus of the proposal should be on requiring firms to ensure that the provision of services other than audit do not influence the level of the audit fee. IESBA members considered and agreed to revised draft language based on the following key principles:

- When entering into discussions or negotiations on audit fees and fees for services other than audit with an audit client, there are many factors that can influence the total fees charged for that particular client.
- The fee for an audit engagement is a standalone fee and it should not be considered as part of a spectrum of fees that might be charged to the audit client.
- Any provision addressing the level of audit fees in the Code should not prohibit cost savings that can be achieved through the experience derived from the provision of services other than audit to the audit client.

#### FEE DEPENDENCY

Regarding the proposed threshold for determining actions that might be a safeguard in the case of audit clients that are not public interest entities (PIEs), an IESBA member was of the view that the 30 percent threshold may be too high. It was suggested that 15 percent might be a more suitable threshold because of a potential unintended consequence of creating a perception that fee dependency below 30 percent is acceptable. On balance, given that the extent of public interest in non-PIEs is lower than in PIEs, the IESBA agreed to stay with the 30 percent threshold as a proposal.

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<sup>1</sup> Section 120, *The Conceptual Framework*

In relation to PIEs, an IESBA member questioned whether the proposed requirement for firms to cease to be the auditor if fee dependency continues to exceed 15 percent of the total fees generated by the firm for more than five years could result in a mandatory firm rotation. The member suggested that the Task Force explore other ways to achieve the objective. A Task Force member, however, pointed out that:

- The proposed requirement should not be viewed as forcing mandatory firm rotation because firms will be able to determine the extent of the services other than audit provided to their audit clients as a way of reducing threats created by fee dependency.
- The aim of this proposal is to encourage firms to take necessary steps before the end of the fifth year's engagement to avoid ending the audit engagement.

It was agreed that the EM should include a discussion of the rationale for the proposals and solicit input from respondents, in particular with respect to the proposed threshold as well as the practical implications for small- and medium-sized practices (SMPs).

#### TRANSPARENCY OF FEE RELATED INFORMATION OF PIE AUDIT CLIENTS

##### *Communication with Those Charged with Governance (TCWG)*

Some IESBA members were of the view that the extent of information that the proposals would require firms to communicate with TCWG could be costly and burdensome. It was noted that similar information is provided to TCWG as part of the proposal stage of the audit engagement. It was also noted that certain information being proposed for communication to TCWG (e.g., audit fees paid to component auditors) is usually not available, especially at the planning stage of the audit.

Mr. McPhee explained that, in developing its proposal, the Task Force endeavored to achieve a level of detail that would lead firms to have more meaningful discussions with TCWG about the fee-related matters without the Code being overly prescriptive.

There was a view that certain aspects of the proposals went beyond what is required in some jurisdictions and that the proposal might impose a responsibility on firms to consider communicating information to TCWG that would be treated as a requirement under certain corporate governance regimes.

##### *Public Disclosure of Fee-related Matters*

The following comments were raised:

- An IESBA member noted that the proposals went beyond what regulators usually require and that they are not practical.
- A few IESBA members expressed concerns about publishing information about the audit fees paid to component auditors outside the firm's network, noting that:
  - It will be challenging for firms to obtain such information, which is considered confidential in some instances.
  - In jurisdictions where only audit fees paid to the firm and network firms are required to be disclosed by the audit client, the disclosure of non-network fee information by the firm may have practical implications for the client.

in relation to how the proposal might be applied in practice, it was suggested that the audit client could also refer to the fact that there are audit fees paid to out-of-network firms and voluntarily provide

additional information. This could help refine the disclosure and provide the appropriate level of fee-related information that would be useful for stakeholders. However, it was noted that in some jurisdictions audit clients are not allowed to disclose information about audit fees beyond what is required.

- There were questions about whether non-compliance with the proposed requirement for public disclosure about fees, and more broadly the Code's provisions that are intended to enhance transparency, would create a breach of independence. In particular, there was a question about whether the firm's independence would be impaired if a firm cannot disclose the audit fees paid to a component auditor that is outside the firm's network. There were also questions about how the information would be used. A member of the Task Force, however, explained that the "users" of the fee-related information are investors. It was argued that it is in the public interest that investors be made aware of this information which will help them make their own judgments about the firm's independence.

After further deliberation, the IESBA agreed that the EM should clearly articulate and solicit views about:

- The specific issue that the IESBA intends to address through the public disclosure requirement and the public interest rationale for it.
- The clarity of the proposal and any practical concerns about its implementation.

#### OTHER MATTERS

##### *Contingent Fees*

It was suggested that the proposed changes to the extant provisions relating to contingent fees should be reversed because the revisions were not viewed as substantive, and the changes made the provisions less clear. A Task Force member explained that the proposed revisions were intended to clarify that the requirement is relevant to *all* fees paid to the audit client (i.e., including assurance and non-assurance fees).

##### *Overdue Fees*

Regarding the proposals relating to overdue fees, the following comments were raised:

- An IESBA member questioned the rationale for the proposed changes to the extant Code and the rationale for referring to fees that are overdue during the audit engagement as opposed to before the audit opinion is issued. A Task Force member explained that the proposal is intended to cover overdue fees for all services provided to the audit client during the period of the audit engagement that can impact the firm's evaluation of threats to independence (i.e., overdue *audit fees* as well as overdue fees for *services other than audit*).
- There was a question about the proposal to withdraw the reference to the word "significant" in relation to the statement in the extant Code that notes that a "significant part of the overdue fees could delay the issuance the audit opinion." A Task Force member explained that if the fee is not significant, any threats created by the overdue fees would be at an acceptable level.

##### *Anti-Trust Issues*

There was a lively discussion about the potential implications of the fee-related proposals in relation to anti-trust and anti-competition laws in some jurisdictions, especially the US. IESBA members shared their perspectives and determined that external legal counsel should be engaged to advise on concerns about

any potential conflicts with anti-trust and anti-competition laws with respect to the global operability of the final fee-related provisions.

#### APPROVAL OF EXPOSURE DRAFT (ED)

After duly considering all the necessary revisions to the proposed text, the IESBA approved it for exposure with 15 affirmative votes out of the 18 IESBA members present. Mss. Gibson and Madden abstained citing the need for a better understanding of the anti-trust issue and clarity about any potential legal liability to which they might be exposed as IESBA members. Mr. Mintzer voted against the proposals because he did not support the proposed requirements relating to fee dependency, which he felt included “bright line” rules that weaken the Code.

The IESBA set the comment period for a minimum of 100 days from the date of issuance of the ED. Dr. Thomadakis thanked the Task Force and staff for their efforts in reaching this milestone.

#### WAY FORWARD

The IESBA will receive an initial update on responses to the ED at the June 2020 IESBA meeting.

### **3. Project Proposal – Definitions of Listed Entity and Public Interest Entity (PIE)**

Dr. Thomadakis welcomed Ms. Fiona Campbell, International Auditing and Assurance Standards Board (IAASB) Deputy Chair and correspondent member on the PIE Task Force, and Mr. Willie Botha, IAASB Technical Director to the session.

Mr. Ashley, Chair of the Task Force, introduced the topic, highlighting the two key objectives of the project:

1. To review, in coordination with the IAASB, the definitions of “listed entity” and “PIE” in the Code; and
2. To optimize alignment between the concepts that underpin the definition of PIE in the Code and the description of an “Entity of Significant Public Interest” (ESPI) in the IAASB standards.

Mr. Ashley briefly explained the background to the project, including concerns about the need to update and clarify the definition of the term “listed entity” and whether the extant PIE definition appropriately scopes in the types of entities in respect of which the more stringent independence requirements set out in the Code should apply. He also highlighted the differences in approach taken by the IAASB and the International Accounting Standards Board (IASB) in capturing these entities. Further, Mr. Ashley noted that the PIOB has also recognized the significance of the PIE definition in ensuring that the right types of entities are scoped to the stricter independence standards. In this regard, he noted that the PIOB has suggested that the definition should include entities with public interest impact on society such as financial institutions and significant utility companies.

Mr. Ashley pointed out that the focus of the project will be on auditor independence and Part 4A of the Code. With regards to the approach, Mr. Ashley stressed that the Task Force will consider jurisdictional definitions and work towards achieving proper alignment between the terms “PIE” and “ESPI.” In addition to consultations with various stakeholder groups, Mr. Ashley further noted that there will be an opportunity to seek early input from respondents to the forthcoming Non-assurance Services (NAS) ED on key considerations they believe should be taken into account in the project.

In providing an overview of the project’s proposed timeline, Mr. Ashley noted in particular that the final text of the revised provisions is targeted for approval by the Board in December 2021. Mr. Siong also highlighted

the importance of coordination with the IAASB in this project and drew the Board's attention to the joint IAASB-IESBA CAG sessions and joint IAASB-IESBA plenary session planned in 2020.

Amongst other matters, the following were raised by IESBA participants:

- In response to a comment, Mr. Ashley clarified that the project proposal is not prejudging that the outcome of the project will be a new definition of PIE given the complexities and nuances across jurisdictions that will need to be worked through. In this regard, Dr. Thomadakis cautioned against suggesting that more objectives be added to the project proposal in light of the complex nature of the subject matter. He was of the view that in all likelihood the project will take a principles-based approach to any revision to the definition. However, he stressed the need to be sensitive to allowing firms the ability to make the appropriate judgment as to which entities to treat as PIEs, and to allowing jurisdictions the ability to develop more specific definitions of PIE for their purposes.
- An IESBA member commented that there is a need to look beyond stock exchanges in relation to the definition of listed entity as there are now financial instruments such as cryptocurrencies that are not securities per se.
- It was noted that not all financial institutions necessarily have a public interest dimension to them. For example, captive insurance entities serve only a narrowly defined purpose. Conversely, it was noted that entities such as unit trusts and large private equity companies have public accountability, and these should be considered. In addition, with respect to the public sector, consideration should be given to public-private partnerships. Acknowledging the suggestions, Mr. Ashley reassured the Board that the Task Force will apply a broad lens as part of its information gathering activities in order to ensure that any revised PIE definition scopes in the right types of entities.
- Consideration should be given to the need for scalability as some stakeholders might prefer different treatments for different types of PIE, particularly in light of the proposed revisions under the NAS and Fees projects.
- A few IESBA members highlighted the need to carefully consider the effective date for the finalized text in order for firms to have sufficient time to implement the changes, especially given the need to work through the implications of these changes on the forthcoming revised NAS and fees provisions. In this regard, Mr. Ashley suggested considering in due course the option of going with a transition period during which the extant definitions would remain effective, as opposed to aligning the effective date of the revised provisions from this project with the effective date of the revised NAS and Fees provisions.

Subject to the above considerations, the Board unanimously approved the project proposal as presented.

#### WAY FORWARD

The Board asked the Task Force to present an update at the March 2020 IESBA meeting.

#### **4. Non-assurance Services**

Mr. Fleck, Chair of the NAS Task Force, introduced the session, highlighting the nature of the revisions made to the proposed text since the September 2019 meeting. He also summarized the key matters raised by IESBA meeting participants who commented on the agenda materials in advance of the December meeting and the Task Force's preliminary reactions. Mr. Fleck then guided the IESBA through the proposed

revisions to Section 600<sup>2</sup> of the Code, including the subsections as well as the related conforming and consequential amendments to Sections 400,<sup>3</sup> 950<sup>4</sup> and 900.<sup>5</sup> With respect to the conforming and consequential amendments, Mr. Fleck explained that the proposed changes are to the final pronouncement, [Alignment of Part 4B of the Code to ISAE 3000 \(Revised\)](#) (Part 4B Revised).

During the meeting, the IESBA considered the Task Force's revised proposals and agreed to a number of revisions and refinements. Among other matters, the following were raised:

#### GENERAL NAS PROVISIONS

##### *Prohibition of NAS that Will Create Self-Review Threat (for PIEs)*

IESBA meeting participants provided several suggestions to refine the proposed wording relating to the requirement and the proposed application material for the prohibition on NAS that will create a self-review threat.

- With respect to the proposed requirement, it was determined that the language for the general prohibition and the prohibition on specific types of NAS set out in the subsections should be more closely aligned.
- It was suggested that materiality should not be a factor in determining whether the provision of a NAS to an audit client will create a self-review threat as that would reintroduce subjectivity into the process. Also, IESBA members asked that staff emphasize the discussion of how firms are to identify a self-review threat in the EM to the NAS ED and consider including a diagram to illustrate how the various provisions in Section 600 interact with the provisions set out in the conceptual framework.

##### *Providing Advice and Recommendations*

The IESBA reaffirmed its view that providing advice and recommendation to audit clients might create a self-review threat. After extensive discussion, the IESBA determined that the proposed application material should explain that as a general matter:

- Providing advice and recommendations might create a self-review threat.
- The determination of whether a self-review threat is created involves the consideration of the nature of the advice and recommendations and how they might be implemented by the audit client. In this regard, an IESBA member noted that the nature of the non-audit-related advice or recommendation that an audit firm provides to its audit client is not explicitly referenced in the audit engagement letter.

The IESBA supported application material that explains how firms are to determine whether a NAS will create a self-review threat.

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<sup>2</sup> Part 4A, Section 600, *Provision of Non-assurance Services to an Audit Client*

<sup>3</sup> Part 4A, Section 400, *Applying the Conceptual Framework to Independence for Audit and Review Engagements*

<sup>4</sup> Part 4B, Section 950 (Revised), *Provision of Non-assurance Services to Assurance Clients Other than Audit and Review Engagement Clients*

<sup>5</sup> Part 4B, Section 900 (Revised), *Applying the Conceptual Framework to Independence for Assurance Engagements Other than Audit and Review Engagements*

The IESBA also reaffirmed its view that if a self-review threat is identified:

- Generally, the provision of advice and recommendations that will create a self-review threat to audit clients that are PIEs is prohibited. However, the proposals include examples of some situations in which the provision of a specific type of NAS will not create a self-review threat (e.g., the provision of tax advisory and tax planning services).
- For audit clients that are not PIEs, firms are required to apply the conceptual framework, which requires them to address the threat created by the provision of the advice or recommendation.

#### SPECIFIC TYPES OF NAS – SUBSECTIONS 601 TO 610

- After extensive deliberation, IESBA members agreed to various revisions and refinements to better align the prohibitions in the general provisions of Section 600 to those in subsections 601 to 610.
- With respect to the proposed prohibition on the provision of a tax service to an audit client if the service relates to marketing, planning, or opining in favor of a tax treatment that was initially recommended, directly or indirectly, by the firm, and a significant purpose of the tax treatment or transaction is tax avoidance:
  - It was suggested that the Tax Planning WG might be better positioned to put forward a proposal relating to tax avoidance. Prof. Poll, Chair of the Tax Planning WG and a member of the Task Force, clarified that the proposal focuses on the permissibility of specific types of tax service, which in his view falls within the scope of the NAS project.
  - IESBA members accepted a suggestion to expand the proposed requirement to include “recommendations for tax transactions” in addition to “tax services.”
  - Ms. Diplock noted that in her view, having clarity about whether a firm should or should not provide tax services for which a significant purpose is tax avoidance is of high public interest. She supported views expressed in favor of retaining the prohibition as part of the NAS proposal.

#### PROPOSED CONFORMING AMENDMENTS TO SECTION 400

Some IESBA members questioned the clarity of the proposed requirement in Section 400 addressing the period for which independence is required. In particular, there was a question about specific time limits. After extensive deliberation, IESBA members agreed to a new prohibition on accepting appointment as auditor of a PIE if a firm has provided a NAS that would create a self-review threat prior to such appointment unless the provision of such NAS has ceased and:

1. The results of the NAS had been subject to audit procedures in the course of the audit of the prior year’s financial statements by a predecessor firm;
2. The firm engages a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, to perform a review of the first audit engagement affected by the self-review threat that is equivalent to an engagement quality review; or
3. The PIE engages another firm to evaluate the results of the NAS or re-perform the NAS, in either case to the extent necessary to enable the other firm to take responsibility for the NAS.

#### MATTERS RELATING TO CONFORMING AND CONSEQUENTIAL AMENDMENTS TO PART 4B

IESBA members agreed to reflect the proposed revisions to Part 4A, Sections 600 and 400 in Part 4B, Sections 950 and 900 in order to preserve the existing alignment between the two parts.

With respect to the proposed changes to Section 950, the IESBA agreed to various suggestions and refinements made during the meeting to the proposed application material that is intended to explain the heightened public expectations relating to assurance clients that are PIEs.

#### APPROVAL OF ED

After duly considering all the necessary revisions to the proposed text, the IESBA unanimously approved it for exposure. The IESBA set the comment period for a minimum of 100 days from the date of issuance of the ED. Dr. Thomadakis thanked the Task Force and staff for their efforts in reaching this milestone.

#### WAY FORWARD

The IESBA will receive an initial update on responses to the ED at the June 2020 IESBA meeting.

### **5. Technology**

Ms. Mulvaney commenced the session by briefing the IESBA on the Technology WG's outreach activities in Q4 2019, which focused on US stakeholders, particularly those from the regulatory community and the public sector, and on the topic of auditor independence. She then provided an overview of the WG's Phase 1 Final Report, including its findings and recommendations which highlight areas for potential enhancements to the Code.

The WG's findings were broadly divided into five topical areas:

1. Critical role of ethics and professional judgment in the digital age
2. Complexities of the professional environment
3. Suitability of the Code's fundamental principles for the digital age
4. Enabling competencies and skills
5. Auditor independence

Ms. Mulvaney noted that the WG's findings with respect to the first four topical areas were largely the same as those in its Phase 1 Preliminary Report. She drew the IESBA's attention to the growing interest in technology-related discussions on issues relating to transparency, accountability and privacy.

Ms. Mulvaney explained that much of the WG's information gathering and analysis in Q4 2019 was focused on the impact of technology on auditor independence and the sufficiency of the Code. She also briefed IESBA members on the outcome of a discussion with the Chair and Staff of the NAS project about an approach and timeline for considering technology-related NAS provisions. Ms. Mulvaney then presented the WG's findings and recommendations relating to auditor independence, highlighting the following four areas:

1. Technology tools used by firms and auditors in an audit to improve efficiency and audit quality (e.g., audit sampling tools)
2. The sale or licensing of technology applications and solutions to audit clients

3. Provision of technology-related NAS to audit clients
4. Modernization of the Code's terms and concepts such as "office," "financial interest," and "routine and mechanical"

The IESBA was generally supportive of the findings and recommendations in the Report with respect to the above five topical areas. Amongst other matters, the following were raised by IESBA meeting participants:

#### VIEWS ABOUT FINDINGS AND RECOMMENDATIONS

- A few IESBA members cautioned against the options of adding a new category of threats and amending the lead-in to paragraph 120.6 A3 of the Code to address the threats caused by the complexities of the professional environment. Dr. Thomadakis observed that the options proposed by the WG are for consideration by a future Task Force.
- Under the topic of complexities of the professional environment, it was suggested that it is also relevant to consider the complexity of taxation schemes, laws and regulations in the provision of tax planning advice to clients.
- A few IESBA members expressed the view that there is a need for more clarity about the relationship between transparency and confidentiality, as well as how transparency should be applied with respect to the use of technology.
- A few IESBA members queried how firms are to treat technology-related transactions such as the sale or licensing of technology applications from an independence perspective (i.e., whether it should be treated as a business relationship or a professional service).

Ms. Mulvaney also highlighted the recommendations for the development of non-authoritative guidance over the next 12-18 months, recognizing that a relevant consideration is the ongoing collaboration efforts between IFAC and the standard-setting Boards it supports (SSBs) in promoting adoption and implementation of international standards.

#### ESTABLISHMENT OF A TASK FORCE

The IESBA supported the recommendation to commence a project to develop enhancements to the Code in the areas identified in the Report and asked the WG to develop a project proposal accordingly. Dr. Thomadakis informed the Board that he has invited Mr. Friedrich to take over from Ms. Mulvaney as the WG chair as she is rotating off the Board in December 2019.

With regards to the recommendation for a Technology WG to conduct information gathering on other technologies and to carry out other activities under Phase 2, the IESBA agreed that the Planning Committee should first discuss the most appropriate approach taking into account available resources.

Ms. Diplock congratulated the IESBA for finalizing the Report, noting that the subject matter has significant public interest. She encouraged the IESBA to continue research in areas such as autonomous intelligence. By way of example, she pointed out that banks and other financial institutions are being transformed rapidly by technological advancements.

Dr. Thomadakis thanked the WG and staff for their contributions to the Report. He added that the Report was not only informative but also stimulated great interest in the subject matter. He also complimented the WG's outreach efforts, noting that they contributed to adding to the IESBA's network of stakeholders.

## WAY FORWARD

The IESBA asked the WG to develop a project proposal for its consideration and approval at the March 2020 IESBA meeting.

### 6. IAASB-IESBA Coordination

Dr. Thomadakis introduced the session and invited Ms. Soulier, IESBA member liaison to the IAASB, to present an update on the coordination activities with the IAASB. Ms. Soulier briefed the IESBA on the coordination efforts with the IAASB since September 2019 and on the significant matters raised in the various discussions that IESBA representatives had with their IAASB counterparts on the IAASB's Quality Management (QM) standards, specifically on the responses the IAASB received on the ISQM 2<sup>6</sup> and ISA 220 (Revised)<sup>7</sup> EDs.

#### IAASB'S QUALITY MANAGEMENT EDs

IESBA members exchanged views about the ethics- and independence-related aspects of respondents' feedback on the IAASB's EDs, including:

- The approach to addressing the issue of threats to objectivity for an engagement quality reviewer (EQR), and whether to establish a requirement for a "cooling-off" period before an engagement partner can step into an EQR role on the same audit engagement.

In this regard, the IESBA considered and approved a project proposal to add guidance to Section 120 of the Code regarding the application of the conceptual framework to address the issue of threats to the objectivity of an EQR.

The project will proceed on an accelerated basis to align as closely as possible to the timing of finalization of ISQM 2.

Following consideration of refinements, the IESBA approved an ED of the proposed changes to Section 120 to be released for public consultation by the end of January 2020, subject to any input at the December 19, 2019 IESBA Consultative Advisory Group (CAG) teleconference.

The ED will be open for public comment for 45 days from issuance.

- How best to achieve a pathway to convergence regarding the revised definition of the term "engagement team" in proposed ISA 220 (Revised).

The term "engagement team" is currently used in both the IAASB's standards and the Code. In view of the fact that the proposed change to the engagement team definition will have implications for the independence provisions in the Code, especially with respect to component auditors outside of a group auditor's network, the IESBA established a WG to develop a project proposal to address such implications.

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<sup>6</sup> Proposed International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews*

<sup>7</sup> Proposed International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*

Following discussion, the IESBA agreed to consider the project proposal with a view to approving it at its March 2020 meeting. This new project will also be coordinated with the IAASB's current project to revise ISA 600.<sup>8</sup>

#### OTHER MATTERS

The IESBA considered disclosure requirements relating to independence that should apply to practitioners who perform engagements in accordance with the IAASB's ISRS 4400 (Revised).<sup>9</sup> The IESBA noted no concerns with the IAASB Task Force's proposals, which were scheduled for approval at the December 2019 IAASB meeting.

#### WAY FORWARD

The IESBA will receive a further update on coordination activities with the IAASB at the March 2020 IESBA meeting.

### **7. eCode Update**

Mr. Friedrich introduced the session. He provided the Board with an update on the ongoing promotion and awareness raising for the eCode and the latest usage statistics. He noted that while these usage threads are encouraging and suggested that the eCode is clearly being used, it remains too early to draw any significant conclusions. He thanked IFAC for the collaborative efforts, in particular for its commitment to supporting the development of licensing agreements and the provision of the funding necessary for Phase 2 of the initiative.

Mr. Friedrich then briefed the Board on the status of Phase 2, highlighting the maintenance work planned as well as the plans for developing new features. He briefed IESBA members on the planned timing for the Phase 2 work and indicated that plans are underway for pilot-testing transfer of the eCode platform to a national standard setter (NSS) (the New Zealand External Reporting Board, XRB).

The IESBA sought clarification as to what would be transferred to interested recipients and what controls would be put in place around differentiation. Mr. Friedrich confirmed that IFAC would not be hosting a central platform. Instead, that platform would be transferred to interested parties to tailor for use in their jurisdictions, subject to the licensing arrangements. The IESBA requested that the licensing agreement (a) require the recipient to provide information back to IFAC about what changes it has made to both the content and the platform, and (b) prohibit the receiving entity from re-exporting the platform to others.

The WG was asked:

- Whether the pilot test to transfer the platform to the XRB would involve working with the local professional body. It was noted that there are ongoing discussions between the XRB and the professional body, who has been informed of the pilot test.
- About use of the eCode logo in professional accountancy organization and NSS communications. IFAC's Intellectual property representative confirmed such use would be appropriate.

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<sup>8</sup> ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>9</sup> International Standard on Related Services (ISRS) 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*

#### WAY FORWARD

The IESBA will receive a demonstration of the staging site for the new features in March 2020. The IESBA requested that IFAC provide an update on IFAC's future plans for the eCode and for promoting it in countries that are direct adopters.

### **8. Tax Planning and Related Services Update**

Prof. Poll introduced the topic and provided an update on the WG's information gathering activities and the preliminary observations from its analysis to date.

Among other matters, Prof. Poll briefed the IESBA on the inter-related impact of tax planning across all the fundamental principles; the "complexity" risk associated with multi-faceted tax planning strategies; the increasing criticality and value of professional judgment as jurisdictions address the ethical dimension of tax planning; and ethical leadership in today's borderless world of e-commerce.

IESBA members noted the presentation and exchanged views about the WG's observations to-date. IESBA members expressed support for the WG's plans for future outreach meetings, including with NSS and the Organisation for Economic Co-operation and Development (OECD).

#### WAY FORWARD

The IESBA will receive a further update on the WG's activities at the March 2020 IESBA meeting.

### **9. Restructured Code Roll-Out and Collaboration with IFAC**

Mr. Dancey, IFAC CEO, and Mr. Gunn jointly provided a status update on the collaboration efforts between IFAC and the SSBs supported by IFAC in relation to the adoption and implementation (A&I) of the SSBs' standards. Among other matters, Mr. Dancey highlighted some of the recent IFAC A&I activities relating to the Code such as the [Exploring the IESBA Code](#) short publication series, its [good practice guide](#) for professional accountancy organizations to develop good practices for their members providing tax advice, and IFAC staff's participation in the IESBA's eCode WG.

Ms. Gibson then provided a report from the Rollout WG on its key achievements since its inception in 2018, highlighting the specific rollout activities for Q4.

#### KEY MATTERS RAISED

- Reflecting on the Technology WG's final report which recommended the commissioning of non-authoritative guidance material, there was a question about IFAC's planned A&I activities in relation to technology. Mr. Dancey responded that the approach will depend on the technicality of the topics. He provided an overview of the various types of A&I guidance that IFAC has developed in support of the SSBs' standards and the process followed, including the extent of coordination between IFAC and IESBA Staff and other IESBA representatives. In particular, he highlighted the October 2019 Tax Guide and explained that IFAC Staff worked closely with the IESBA Staff and Planning Committee to ensure that the material was not inconsistent with the Code. Mr. Gunn added that consideration should also be given to the extent of stakeholder demand, with ensuing dialogue with IFAC as to who would be best placed to develop the material. Mr. Dancey concurred and noted consideration should also be given to the form of guidance that would be most relevant and helpful.

- There was a question about plans to maintain the positive momentum and ensure a smooth transition from the Rollout WG. Mr. Gunn shared his perspectives, noting that although initiatives such as the eCode, webinars, and the *Exploring the IESBA Code* series are great, there is more to be done. Mr. Dancey emphasized that IFAC has publicly communicated that A&I is one of its strategic objectives. As an example of specific action taken towards transitioning from rollout, Mr. Friedrich pointed out that the eCode Phase 2 WG was reconstituted to include two representatives of IESBA and two senior IFAC staff.

Dr. Thomadakis congratulated the WG on its various accomplishments, indicating that it provided a strong foundation for future work and that he was very pleased with the progress to-date. He welcomed the WG's various recommendations and agreed that webinars are an innovative way to promote awareness of the Code. Looking ahead, Dr. Thomadakis noted that he is looking forward to enhanced cooperation and coordination with IFAC in relation to A&I.

Ms. Diplock noted that in her view this is an exciting development. She encouraged IFAC on its journey in relation to supporting the adoption and implementation of the SSBs' standards. She emphasized that from a public interest perspective, in progressing this endeavor it is important that there is no confusion between the work of the IFAC and that of the SSBs. She added that while it is great to have IFAC support A&I, the independence of the SSBs is critical to ensure the credibility of their work. She suggested that A&I guidance be drafted in a way that achieves clarity as to who owns it and preserves the SSBs' independence.

#### WAY FORWARD

With the revised and restructured Code effective since June 2019, the IESBA agreed to dissolve the WG and asked that IESBA staff take the lead in coordinating A&I efforts with IFAC. The WG also recommended that the IESBA appoint an IESBA member as an advisor to the IESBA staff.

#### **10. Emerging Issues and Outreach Committee (EIOC) Update**

Ms. Kiryabwire introduced the session by reporting on the EIOC's activities since its last update in June 2019. Ms. Kiryabwire informed the IESBA of the ongoing parliamentary inquiry into the regulation of auditing in Australia and invited Mr. McPhee to provide the Board with a high-level summary of the issues identified, in particular with respect to ethics and independence.

Ms. Kiryabwire then highlighted key findings in the International Forum of Independent Audit Regulators (IFIAR) Inspection Report 2018 issued May 2019 and the UK Financial Reporting Council (FRC) Enforcement Report issued July 2019. In light of the nature of the IFIAR findings, the EIOC recommended that the IESBA deepen its engagement with IFIAR and other audit oversight authorities. In particular, it was suggested that there be enhanced collaboration with such organizations in structuring their inspection surveys to help gather information that would be useful in supporting the IESBA's work.

The IESBA received presentations on other national developments from:

- Mr. Takwani, Director–Regulation at ACCA, regarding the recent governmental reviews into the UK audit profession. Among other matters, Mr. Takwani highlighted key aspects of the [Kingman review](#) of the UK FRC; and the [Brydon review](#) into the quality and effectiveness of audit.
- Ms. Canavan, Managing Director of Global Independence at Deloitte, on the preliminary findings of the Dutch audit market review that aims to improve audit quality.

In closing the session, Ms. Kiryabwire thanked Ms. Mulvaney who is retiring from the IESBA for all her contributions to the EIOC over the years.

#### WAY FORWARD

The IESBA will receive its next update from the EIOC in June 2020.

### 11. IFAC Global Status Report

Staff of IFAC's Quality & Development department, Mr. Joseph Bryson, Director, and Ms. Sarah Gagnon, Technical Manager, provided the IESBA with a status update on the global adoption of international standards, including the Code, as summarized in IFAC's October 2019 [International Standards: 2019 Global Status Report](#).

Among other matters, IESBA meeting participants noted different snapshots and breakdowns of the current status of adoption of the Code around the world. They asked several clarifying questions to obtain a better understanding of:

- The countries that are using the Code as a base for developing their national standards versus those that are direct adopters.
- The activities that IFAC is currently undertaking or planning to undertake to promote awareness and adoption of the 2018 version of the Code as well as the eCode to jurisdictions that are direct adopters.
- The nature of activities in IFAC's monitoring and assessment of adoption at the country level and how IFAC promotes and tracks the use of the Code, including the eCode.

Mr. Bryson noted that IFAC is planning on releasing a deep-dive report on "Ethics and Investigation and Discipline" and a regional report focusing on the Middle East and North Africa later in 2020.

Dr. Thomadakis thanked Mr. Bryson and Ms. Gagnon for their informative presentation.

### 12. Role & Mindset

Mr. Fleck drew the Board's attention to the high-level overview of the key comments received on the ED, [Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants](#). Based on the Task Force's preliminary review of the comments received, Mr. Fleck reported that there was general support for the proposals in the ED.

#### WAY FORWARD

The IESBA asked the Task Force to provide a full review of the significant issues and key comments received on the ED as well as the Task Force's responses and proposals (1<sup>st</sup> Read) at the March 2020 IESBA meeting.

### 13. PIOB Observer's Remarks

Ms. Diplock commented that it was an honor and pleasure for her to have had the opportunity to observe the meeting, with all agenda items resonating deeply on the public interest. She complimented all those involved for their participation and congratulated the IESBA on its accomplishments during the meeting and the positive work that it has done in the public interest in 2019. In particular, she highlighted the IESBA's finalization of the NAS and Fees EDs, the final Phase 1 report on Technology and the launch of the eCode.

She noted that in the context of the inquiries into the audit profession in major parts of the world, the IESBA's work will be setting the bar for the profession. She added that a number of issues discussed at the meeting touch on the audit firm business model issue, especially aspects that have heightened sensitivity for stakeholders, i.e., NAS and fees. She highlighted a link to the IAASB's work in that regard.

With respect to the Fees project, she noted the abstention of certain IESBA members from the vote on the ED as a result of the complex anti-trust matter and observed that the issue did not limit the robustness of the IESBA's deliberations. She indicated that the PIOB will reflect on the issue and will provide its views in due course.

In closing, she noted that the meeting was well-managed in the public interest, the level of debate high with intellectual rigor, depth and integrity, and that there was excellent input from all around the table.

Dr. Thomadakis thanked Ms. Diplock for her constructive remarks.

#### **14. Next Meeting**

The next Board meeting is scheduled for March 16-18, 2020.<sup>10</sup>

#### **15. Closing Remarks**

On behalf of the Board, Dr. Thomadakis thanked the retiring IESBA members Mss. Mulvaney and Soulier, and Mr. Leung for their contributions to the Board's work and their dedication to the public interest during their terms. He also acknowledged the contributions and support of the departing Technical Advisors, Mss. Haste and Ho.

Finally, Dr. Thomadakis thanked the IESBA meeting participants for their contributions, conveyed his best wishes for the holiday season, wished them a safe journey home and closed the meeting.

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<sup>10</sup> As a result of public health concerns relating to the coronavirus, the IESBA's March 2020 meeting will be held virtually.